



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

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Special Notice to Secondary Wholesalers, Vending Machine Operators and In-State Unclassified Acquirers Concerning a One-Time Inventory Tax on All Tobacco Products

Recent legislation increased the tax on all tobacco products. Effective July 1, 2004, the tax on cigarettes will increase from \$1.25 to \$2.00 on a 20-cigarette pack and from \$1.56 to \$2.50 on a 25-cigarette pack (from 62.5 to 100 mills per cigarette). The tax rate on other tobacco products (OTP) will increase from 20% to 32% of the wholesale price of the OTP. (OTP includes any cigar or roll for smoking, other than a cigarette, made in whole or in part of tobacco, and any tobacco other than cigarettes, intended for consumption by smoking, chewing or as snuff.)

As a result of this tax increase, secondary wholesalers, vending machine operators and in-state unclassified acquirers who sell tobacco products must:

- Take a physical inventory of all cigarettes and OTP on hand as of the close of business June 30, 2004. The amount of cigarettes and OTP a licensee or other person has "on hand for sale" on July 1, 2004, is the actual physical inventory of cigarettes and OTP. Actual physical inventory includes shipments of cigarettes and OTP that licensees or retailers physically possess on or before June 30, 2004.
- File a tobacco products inventory tax return with the Michigan Department of Treasury postmarked by August 2, 2004, and pay the additional tax per cigarette pack and the additional tax of 12% of the wholesale price of OTP for all physical inventory on hand as of the close of business on June 30, 2004. The physical inventory includes cigarettes or OTP offered for sale, kept on site, and kept or stored at other locations in Michigan.

Wholesale Price of OTP

The inventory tax on OTP is based on the "wholesale" price of the OTP. The wholesale price of OTP is the established price for which a manufacturer sells tobacco products to a distributor before the allowance of any discount, trade allowance, rebate or other reduction. In the absence of the established price, the wholesale price is the manufacturer's invoice price. If you know the wholesale price, apply the inventory tax rate to that amount. If you do not know or cannot identify the wholesale price of the OTP, use 50% of the OTP retail price (excluding sales tax) as the wholesale price.

Physical Inventory

The results of the physical inventory of tobacco products must be reported on Form 4182, *Michigan Tobacco Products Inventory Tax Return* (enclosed).

If you have tobacco products stored, kept or offered for sale at more than one business location in Michigan, you must file one inventory tax return for each location that has a separate Federal Employer Identification Number (FEIN). Cigarettes and OTP stored at locations other than the primary business location must be included in the inventory for the inventory tax. A separate physical inventory must be taken at each location.

If you have tobacco products stored, kept or offered for sale at more than one business location in Michigan **and each location uses the same the FEIN**, you must file one inventory tax return that includes the information for all locations. A separate physical inventory must be taken at each location. Copies of the inventories must be forwarded to the location responsible for completing the inventory tax return. Cigarettes and OTP stored at locations other than the primary business location must be included in the inventory for the inventory tax.

Note: Sellers must take their own physical inventory. Random inventory counts for statistical purposes may not be used.

Vending Machine Operators

Each vending machine operator should take a physical inventory of as many machines as possible with available personnel. If it is impossible to take a physical inventory of each vending machine, the vending machine operator may pay a tobacco products inventory tax based on one-half of the **normal fill capacity** for those machines that cannot be physically inventoried on June 30, 2004.

Normal fill capacity means the inventory as indicated on the individual inventory record maintained for each vending machine on location. For example, if the normal fill capacity of a machine is 200 cigars and the wholesale price of each cigar is \$2.50, Treasury will permit the vending machine operator to report a tax based on one-half of 200, or 100 cigars, at 12% of their wholesale price of \$250 (100 cigars x \$2.50) for a tobacco products inventory tax due of \$30.00 (12% x \$250) for that machine.

The alternative method outlined above **applies only** to vending machines on location. A physical inventory must be taken of all tobacco products stored elsewhere.

Inspection and Audit

For audit purposes, secondary wholesalers, vending machine operators and in-state unclassified acquirers must keep all records of the physical inventory used to arrive at the tobacco products inventory tax due. The original inventory record shall be kept at each retail location for four months and retained for four years at the main office.

The Michigan Department of Treasury may require distributors to disclose recent purchases and historic purchase trend information to assist in administering the inventory tax.

Inventory Tax Return – Obtaining, Filing and Paying

If you are required to file a return but have not received one, Form 4182, *Michigan Tobacco Products Inventory Tax Return*, is available on Treasury's Web site at www.michigan.gov/tobaccotaxes, by contacting the Tobacco Tax Unit at 517-636-4630 or by faxing the unit at 517-636-4631 to request a form. Form 4182 must be submitted with the appropriate tax payment by **August 2, 2004**.

A licensee's failure to receive a tobacco products inventory tax form is not an acceptable reason for failure to file and pay the tobacco products inventory tax due. Licensees who do not file and pay timely may be subject to penalty and interest for late filing in accordance with the Revenue Act, Public Act 122 of 1941.

For more information about this tax law change, please visit our Web site at www.michigan.gov/tobaccotaxes. You may also contact the Tobacco Tax Unit at 517-636-4630 if you have questions.